

**ORGANISATIONAL ATTRIBUTES AND
CORPORATE MONITORING MECHANISMS**

MAZLINA BINTI MUSTAPHA

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MAZLINA MUSTAPHA

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AND CORPORATE
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**ORGANISATIONAL ATTRIBUTES AND
CORPORATE MONITORING MECHANISMS**

By

MAZLINA BINTI MUSTAPHA

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in Fulfilment of the Requirement for the Degree of Doctor of Philosophy**

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Kolej Perniagaan
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ABSTRAK

Mekanisma pemantauan yang mandatori bagi syarikat-syarikat yang tersenarai di Bursa Malaysia ialah audit dalaman, audit luaran dan pengarah. Setiap satu mekanisme ini mempunyai kelebihan tersendiri dan saling melengkapi antara satu sama lain. Ciri-ciri organisasi dikatakan boleh mempengaruhi kos pemantauannya kerana kos ini adalah terhasil daripada sistem yang digunapakai oleh organisasi tersebut. Perkara ini adalah penting kerana ianya boleh memberi kesan kepada kekayaan pemegang saham (*shareholders wealth*) dan kewujudan organisasi di masa hadapan. Oleh itu, tesis ini telah mengkaji kesan ciri-ciri organisasi ini ke atas permintaan dan kecenderungan menyukai / memilih (*preference*) antara ketiga-tiga mekanisme pemantauan ini bagi syarikat yang tersenarai di Bursa Malaysia. Ciri-ciri organisasi yang dikaji adalah struktur pemilikan, struktur hutang, struktur sistem informasi, struktur imbuhan, status multi-nasional dan etnik. Keputusan kajian memberikan bukti sepertimana yang dijangkakan di dalam teori agensi, pemilikan pengurusan dan struktur hutang mempunyai hubungan signifikan yang negatif dengan kos pemantauan. Walaubagaimanapun, dapatan berkaitan pemilikan pemegang-pemegang saham besar menunjukkan hubungan yang berbeza dengan dapatan dari kajian-kajian di negara-negara barat. Pemegang-pemegang saham besar di Malaysia menuntut pemantauan yang lebih tinggi, yang mungkin disebabkan oleh keadaan perniagaan yang tertumpu di Malaysia. Ciri-ciri organisasi lain yang signifikan ialah status multi-nasional dan etnik. Kajian berkenaan kesan ciri-ciri organisasi ini ke atas kecenderungan memilih antara pengarah dan pengauditan menunjukkan pemilikan pengurusan, struktur imbuhan dan etnik adalah signifikan. Kajian lebih mendalam berkaitan kesan ciri-ciri organisasi ini ke atas kecenderungan memilih audit dalaman dan audit luaran mendapati struktur hutang, struktur sistem informasi, status multi-nasional dan etnik adalah signifikan.

ABSTRACT

Monitoring mechanisms that are mandatory for Malaysian public listed companies are internal auditing, external auditing and directorship. There is a comparative advantage of each type of these mechanisms and they complement each other. It is said that the attributes of an organisation can influence its monitoring costs, as the costs are the function of the systems adopted by the organisation. This is important as the costs involve may jeopardise the shareholders wealth and future survival of the organisation. Thus, this thesis investigates the impacts of these organisational attributes on the demands and preferences of these three monitoring mechanisms among Malaysian public listed companies. The organisational attributes that are examined are ownership structure, debt structure, information system structure, compensation structure, multinational status and ethnicity. The results of this study provide evidence that are consistent to agency theory; managerial shareholdings and debt structure appear to have negative significant relationships with monitoring costs. However, another ownership variable seems to give different finding compared to those studies in western countries. Block-holders appear to demand more monitoring costs, which may be due to the concentrated business environment in Malaysia. Other organisational attributes which are significant in its association with monitoring costs are multinational status and ethnicity. Investigation on the preference between directorship and auditing with these organisational attributes reveal that managerial ownership, compensation structure and ethnicity are significant. Further examinations on the impact of these attributes on the preference between internal and external auditing indicate that, debt structure, information system structure, multinational status and ethnicity are significant.

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LIST OF ABBREVIATIONS

BM	: Bursa Malaysia
CEO	: Chief Executive Director
GLS	: Generalised Least Square
IIAM	: Institute of Internal Auditors Malaysia
MIA	: Malaysian Institute of Accountants
MNC	: Multinational company
OLS	: Ordinary Least Square
PLC	: Public listed company
ROA	: Return on total assets
SC	: Securities Commission
The Code	: Malaysian Code on Corporate of Governance

CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1 Introduction

This chapter comprises the background of the study. It consists of eight sections. Section 1.2 presents the background and issues relating to monitoring mechanisms in Malaysia. Section 1.3 describes the problem statement. The research questions are stated in Section 1.4 and Section 1.5 presents the research objectives. Operational definitions for the purpose of this study are defined in Section 1.6. Section 1.7 discusses the significance and contributions of the study. Finally the last section explains the organisation of the thesis.

1.2 Background of the study

Governance of many companies in the world has changed dramatically, particularly in the wake of the East Asian financial crisis and after the recent accounting irregularities in the United States (Ghosh, 2007). Insufficient and malfunctioning corporate governance mechanisms are said to be the major factors responsible for causing and accelerating the deteriorating situations of the crisis (Suto, 2003; Sam, 2007). Various internal and external monitoring mechanisms have been suggested, and efforts are undertaken to improve these mechanisms. These mechanisms are claimed to be able to align the interest of agents to be more closely with that of the principals (Sam, 2007).

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